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SUBJECT: FRANCE'S EDF BUYS BRITISH ENERGY, TAKING THE FIRST
CONCRETE STEP TOWARD NEW NUCLEAR BUILD IN BRITAIN

¶1. (U) Summary: French utility Electricite de France (EDF) will purchase the UK's nuclear energy firm British Energy (BE) for a reported USD23 billion (USD 14.40 per share), making HMG's 36% stake worth an estimated USD 8.3 billion. The long-discussed entry of EDF, with its financial and technical resources, into the UK's civilian nuclear sector is a large step forward towards building new nuclear power plants in the UK. EDF also signed an MOU with Centrica, owner of British Gas, for a 25% stake in British Energy and options for part ownership of any new reactors.

Why Purchase British Energy?

¶2. (U) The primary value of BE is that it owns the best sites for new nuclear reactors, and has a nuclear-skilled workforce. Existing sites already have grid connections, a major hurdle for any new site to overcome. Also, communities around existing nuclear plants tend to be supportive of nuclear plants, reducing the uncertainty of obtaining planning permits. Next steps for EDF are site selection for the first planning permit, and the Generic Design Assessment and site-specific assessment for Areva's EPR reactor. Ivesco Perpetual, BE's largest institutional investor, blocked a previous offer from EDF in July but has been won over by a slightly improved offer worth \$23 billion. BE owns all of the UK's nuclear power plants and generates 15% of the UK's electricity. BE is producing less power, though, as maintenance outages increase at its ageing reactors. All but one reactor are expected to be decommissioned by 2024.

¶3. (U) Centrica, owner of British Gas, had signed an MOU with EDF for a 25% stake in British Energy. This gives Centrica the right to 25% of BE's output, cushioning Centrica from any rise in natural gas prices. Centrica had attempted to purchase BE after EDF's offer was rejected in July, but was unable to acquire the cash necessary to complete the transaction. (Comment: Centrica currently only operates gas-fired power plants, and may be looking to diversify supply. The participation of Centrica in the BE deal not only helps EDF offset the cost of the purchase, but also keeps partial control of BE in the hands of a British company. It has been well documented that BE is being sold to a utility owned by the French government. End Comment.)

Enough Sites to Go Around?

¶4. (U) An important part of the deal was that EDF has reportedly agreed to sell an as-yet undisclosed number of BE's nuclear sites to other utilities looking to build new

reactors. According to the Financial Times, this includes land at Bradwell in Essex, and possibly at Dungeness in Kent or at Heysham in Lancaster. Cliff Harris, Vice President for Europe of GE-Hitachi, noted in a private meeting with Embassy officers that without these provisions a technology provider other than Areva would find it difficult to get a foothold in the UK market. (Note: EDF is expected to build Areva reactors.) David Powell, Westinghouse's Regional Vice President for the UK, stated in a separate meeting that there were other sites that were appropriate for their AP-1000, but that having access to some of BE's sites would help with economies of scale. Both representatives pointed out that their respective companies aimed to build more than one reactor in the UK for economies of scale and supply chain development.

¶5. (SBU) Comment: HMG has publicly supported EDF's purchase of British Energy over the past few months, with both Secretary of State for Business, Enterprise and Regulatory Reform (BERR) John Hutton and Minister for Energy Malcolm Wicks endorsing an EDF takeover deal. EDF increased their offer from July by only 17 cents per share, which suggests the possibility of some political pressure on the hold-out investors.

¶6. (SBU) Comment: The purchase of BE will help to speed up the development of new reactors in the UK. It is expected that EDF will finance mostly from its balance sheet, and is relatively unaffected by the current credit situation. With an investment of 23 billion dollars in the UK market, EDF has made the firm financial commitment that will allow vendors and other pieces of the supply chain to begin making preparations.

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